MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018 / 2019 SESSION

DEC5018 – MICROECONOMICS

(All sections / Groups)

23 OCTOBER 2018
9.00AM – 11.00AM
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **13** pages with 3 sections.
2. Answer **ALL** questions for sections A, B and C.
3. Answers for section A should be shaded on the OMR sheet provided.
4. For section B and C, please write your answers in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS

Each question consists of 1 mark. Answers for this section should be shaded on the OMR sheet provided.

1. The followings are best describe about economics **EXCEPT** _____.

   A. "Unlimited wants with limited resources"
   B. "To get something, we have to let go something"
   C. "People make rational choices by comparing benefits and costs"
   D. "Actions are based on a person's stages of moral development"

2. When economists study about people's decision on buying certain quantity of chicken, it is best related to _____.

   A. microeconomics
   B. macroeconomics
   C. incentives studies
   D. marginal studies

3. When Hanisah decided to use more labour than capital for her Boutique & Clothes shop, she is answering _____ question.

   A. what
   B. how
   C. for whom
   D. why

4. When you chose to go swimming instead of hiking, the hiking activity that you did **NOT** choose is called the _____.

   A. implicit cost
   B. explicit cost
   C. opportunity cost
   D. accounting cost

5. Identify which of the following is a positive statement.

   A. The government should lower the price of fish so that more households can afford to buy it.
   B. The best level of tax rate is zero percent because people able keep everything they earn.
   C. My economics class should last for three hours because it is my favorite class.
   D. An increase in tuition fees means fewer students will apply to college.

Continued ...

6. When production is efficient, _____.

   A. our choice of goods can be either on or inside the production possibilities frontier
   B. we can satisfy all our wants
   C. we face a tradeoff and incur an opportunity cost
   D. the opportunity cost is as low as possible

Point	Production of pumpkins	Production of cabbage
A	20	0
B	18	3
C	10	5
D	0	8

Table 1

7. Table 1 above shows the production relationship between pumpkin and cabbage. Which of the following production possibilities is **NOT** attainable?

   A. 18 pumpkins, 3 cabbages.
   B. 12 pumpkins, 3 cabbages.
   C. 0 pumpkin, 8 cabbages.
   D. 10 pumpkins, 7 cabbages.

8. Vicky currently produces chairs and tables in his factory. What is the possible factors for Vicky's production of chairs and tables shift outward?

   A. Increase the capital and technology.
   B. Reduction in capital usage.
   C. Increase in price level of chairs and tables.
   D. Reduction in the usage of human labour.

9. If Hisham is able to produce waffles more than Abu, this means Hisham _____.

   A. has a comparative advantage in producing waffles
   B. has an absolute advantage in producing waffles
   C. has less desire to consume waffles than Abu
   D. has less resources to produce waffles

10. The following factors will result to economic growth **EXCEPT** _____.

    A. technological change
    B. capital accumulation
    C. investment in human capital
    D. opportunity cost

Continued ...

11. Residents in Ayer Keroh expect that the price of Durian will rise next week. As a result, _____.

A. today's supply of durian increases
B. today's demand for durian increases
C. the price of a gallon of durian falls today
D. next week's supply of durian decreases

12. When Sue Ern's income increases, she stops buying baked potato as her meals and change to roasted chicken. In this case, baked potato is _____ and roasted chicken is _____.

A. inferior good; normal good
B. normal good; inferior good
C. inferior good; inferior good
D. normal good; normal good

Price (RM per cone)	Quantity supplied (cones)	Quantity demanded (cones)
3	150	500
4	280	570
5	400	400
6	550	230
7	600	100

Table 2

13. Table 2 shows the supply and demand of ice cream in Lego Land. What is the equilibrium price for the ice cream?

A. RM3 per cone.
B. RM4 per cone.
C. RM5 per cone.
D. RM6 per cone.

14. Given the equilibrium price for burger is RM7.00. If the current price in the burger market is RM7.50 each, _____.

A. there is a surplus of burgers
B. there is a shortage of burgers
C. the supply curve of burgers will shift leftward
D. the demand curve for burgers will shift leftward

Continued ...

Question 15 to question 17 referred to table 3.

Price (RM per pair)	Quantity demanded (pairs per week)	Quantity supplied (pairs per week)
30	130	70
40	120	80
50	110	90
60	100	100
70	90	110
80	80	120
90	70	130

Table 3

15. The table 3 shows the demand and supply schedules for shoes. Which of the following is **CORRECT**?

    A. At RM60 a pair, there is a shortage of shoes.
    B. At RM60 a pair, there is a surplus of shoes.
    C. At RM40 a pair, there is a shortage of shoes.
    D. At RM40 a pair, there is a surplus of shoes.

16. Due to technological development, the supply of shoes increases by 20 pairs at every price level. What is the new equilibrium price?

    A. RM80.
    B. RM70.
    C. RM60.
    D. RM50.

17. Which of the following will shift the supply curve of the shoes production?

    A. Increase of population.
    B. Change of consumer preference.
    C. Increase expected future income.
    D. Knowledge advancement.

18. Suppose the equilibrium price of cigarette has risen from RM7 per pack to RM12.00 per pack and the equilibrium quantity has increased. These changes are a result of a _____ shift of the _____ curve for cigarette.

    A. rightward; demand
    B. rightward; supply
    C. leftward; supply
    D. leftward; demand

Continued ...

19. Which of the following is a possible cause when the price of M&M's chocolate bar falls?

    A. An increase of population that consume the M&M's chocolate bar.
    B. A discovery that M&M's chocolate bar cause diabetes.
    C. M&M's chocolate bar is a normal good and people's incomes rise.
    D. A drought that reduces supplies of cocoa beans to produce M&M's chocolate bar.

20. Cakes are made out of flour. If the price of flour increases, there is a shift in the supply curve of cakes that leads to _____.

    A. a shift in the demand curve for cakes
    B. a temporary surplus of cakes
    C. a permanent surplus of cakes
    D. an increase in the price of a cake

21. The following are characteristics of perfect competition **EXCEPT** _____.

    A. barriers to entry
    B. many firms sell identical products to many buyers
    C. sellers and buyers are well informed about prices
    D. established firms have no advantages over new ones

22. _____ is the return that the entrepreneur can obtain from his business.

    A. Normal profit
    B. Economic profit
    C. Marginal profit
    D. Marginal revenue

23. If the demand for a perfectly competitive firm's product is perfectly elastic, then the marginal revenue equal to _____.

    A. one
    B. zero
    C. the price of the product
    D. negative one

24. When Anisa decided to do business in selling fish in the market, her business is actually under _____ market.

    A. monopoly
    B. perfect competition
    C. oligopoly
    D. monopolistic competition

Continued ...

25. In part, perfect competition arises if _____.

I. each firm's minimum efficient scale is large relative to demand
II. each firm produces a good or service identical to those produced by its many competitors
III. there are significant barriers to entry

A. I only.
B. II only.
C. III only.
D. II and III.

26. The condition P = MR implies that _____.

A. the market's MC curve slopes upward
B. the market's ATC curve is U-shaped
C. the market's MC and ATC are equal at the profit-maximising amount of output
D. the market's demand curve is horizontal

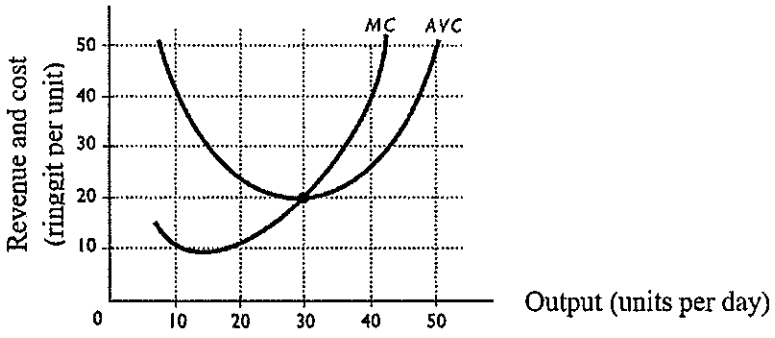

Figure 2

27. Figure 2 illustrates a perfectly competitive firm. If the market price is RM40 a unit, to maximise its profit (or minimise its loss) the firm should _____.

A. shut down
B. produce more than 10 and less than 30 units
C. produce 40 units
D. produce more than 30 units and less than 40 units

28. If a struggling perfectly competitive furniture store in Melaka temporary shuts down, it incurs an economic loss equal to its _____.

A. marginal cost
B. total variable cost
C. total fixed cost
D. average variable cost

Continued ...

29. In the short run, a perfectly competitive firm _____.

A. can make only zero economic profit
B. can possibly make an economic profit or possibly incur an economic loss
C. produces the level of output that sets the average total cost equal to the market price
D. can vary all its inputs

30. Which of the following goods or services is most likely to be a supply by a monopoly firm?

A. Food and beverages.
B. Electricity supply.
C. Hotel and tourism.
D. Books and magazines.

31. A barrier to entry is _____.

A. the economic term for tradeoffs
B. not existed
C. anything that protects a firm from the arrival of new competitors
D. a factor that increases supply of goods and services

32. Compared to competitive firms, single-price monopolies _____.

A. do not have to worry about market demand
B. sell only if demand is high
C. do not have any buyer
D. can make an economic profit indefinitely

33. As opposite to a perfectly competitive market, a single-price monopoly sets _____.

A. a higher price
B. a lower price
C. the same price
D. cheaper price

Continued ...

Question 34 to question 36 referred to figure 3.

Suppose Stark Industry is the monopoly producer of advance weapon in Kuala Lumpur. Figure 3 represents the demand, marginal revenue and marginal cost curves for this establishment.

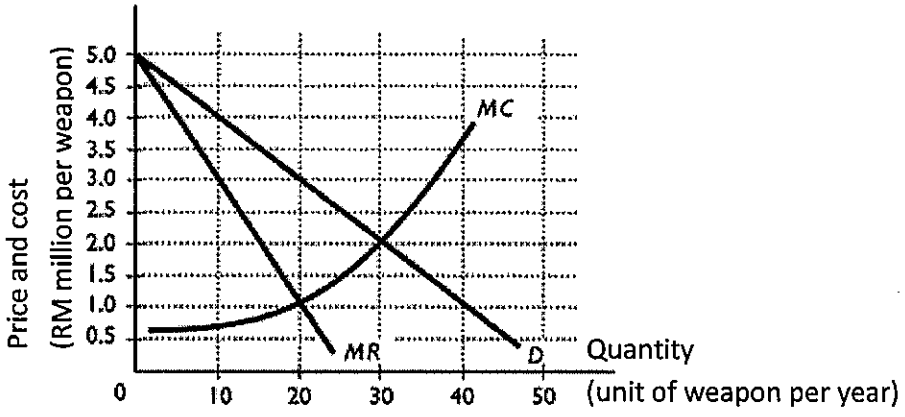

Figure 3

34. What quantity will the Stark Industry produce to maximise its profit?

A. 20 unit of weapons per year.
B. 30 unit of weapons per year.
C. 50 unit of weapons per year.
D. 0 unit of weapons per year.

35. What price will the Stark Industry charge to maximise its profit?

A. RM5 millions per unit of advance weapon.
B. RM3 millions per unit of advance weapon.
C. RM2 millions per unit of advance weapon.
D. RM1 millions per unit of advance weapon.

36. If the Stark Industry produces 40 unit of weapons per year, then _____.

A. marginal revenue will exceed marginal cost
B. profit will be maximised
C. marginal revenue will be negative
D. marginal revenue will be maximised

37. A single-price monopoly has marginal revenue and marginal cost equal to RM20 at 30 units of output where the price on the demand curve is RM50. At what price will this firm sell the output?

A. RM50.
B. Less than RM50.
C. Triple than RM50.
D. More than RM50.

Continued ...

38. A single-price monopoly has marginal cost of RM30 and marginal revenue of RM60. Which of the following is definitely correct?

    A. It is maximising profit.
    B. To increase profit, it should produce less.
    C. To increase profit, it should produce more.
    D. It should shut down.

39. A single-price monopoly has marginal revenue and marginal cost equal to RM19 at 15 units of output where the price on the demand curve is RM38. At this output, average total cost is RM15. What is the total profit earned?

    A. RM345.
    B. RM285.
    C. RM225.
    D. RM570.

40. A firm that is a natural monopoly _____.

    A. can supply the entire market at a lower average total cost than two or more firms
    B. has very large marginal costs
    C. is impossible
    D. cannot make an economic profit

[TOTAL 40 MARKS]

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SECTION B: FILL IN THE BLANK

Answers for this section should be written in the answer booklet provided.

What	Quantity demanded	Marginal revenue	Increases	Decreases
Demand	Macroeconomics	Potential competitors	Comparative advantage	Normative
Zero	Price discrimination	Government license	Total fixed cost	Ownership
Barriers to entry	Perfect substitutes	Minimum	Substitution	Trade off

1. An example of _____ question is; Why is Malaysia's national income higher than Indonesia?

2. _____ is referring to the goods and services produce to satisfy human wants.

3. When you think about every choices as a _____, it means you are giving up one thing to get something else.

4. A person has a _____ in an activity if that person can perform the activity at a lower opportunity cost than anyone else.

5. A _____ statement expresses an opinion and cannot be tested.

6. According to the law of demand, when the price of a computer increases, the _____ of the computer will decreases.

7. Income effect and _____ effect is the reason why the demand curve slopes downward.

8. The market is at equilibrium when _____ equals to supply.

9. The points on the supply curve shows the _____ price that the sellers are willingly to accept for the goods and services.

10. When both the supply and demand increases, the equilibrium quantity _____.

11. Under perfect competition, each firm is a _____ for the output of the other firms, so the demand for each firm's output is perfectly elastic.

12. A firm's _____ is the change in the total revenue that results from a one-unit increase in the quantity sold.

13. If MR < MC, economic profit _____ if output increases.

Continued ...

14. If the firm shuts down, quantity is zero and the firm still has to pay its _____.

15. If price equals average total cost, the firm makes _____ economic profit.

16. Copyright is one of the constraint that protects a firm from _____.

17. Higher phone rates on weekdays than on weekends is the example of _____.

18. A firm can apply for a _____ to become a monopoly in the market.

19. A monopoly firm can set a higher price in the market due to _____.

20. When De Beers owned 90% of the world's diamonds, the firm becomes a monopoly by _____.

[TOTAL 20 MARKS]

Continued ...

SECTION C: STRUCTURED QUESTIONS

Answers for this section should be written in the answer booklet provided.

QUESTION 1

Table 4 below shows the total revenue and total cost of a firm. Answer the following questions:

Quantity	Total revenue (TR) RM	Total Cost (TC) RM	Profit/Loss (RM)	Marginal Revenue (MR) RM	Marginal Cost (MC) RM
0	0	0	-	-	-
2	30	18			
5	75	42			
8	120	87			
10	150	120			
13	195	180			
18	270	290			

Table 4

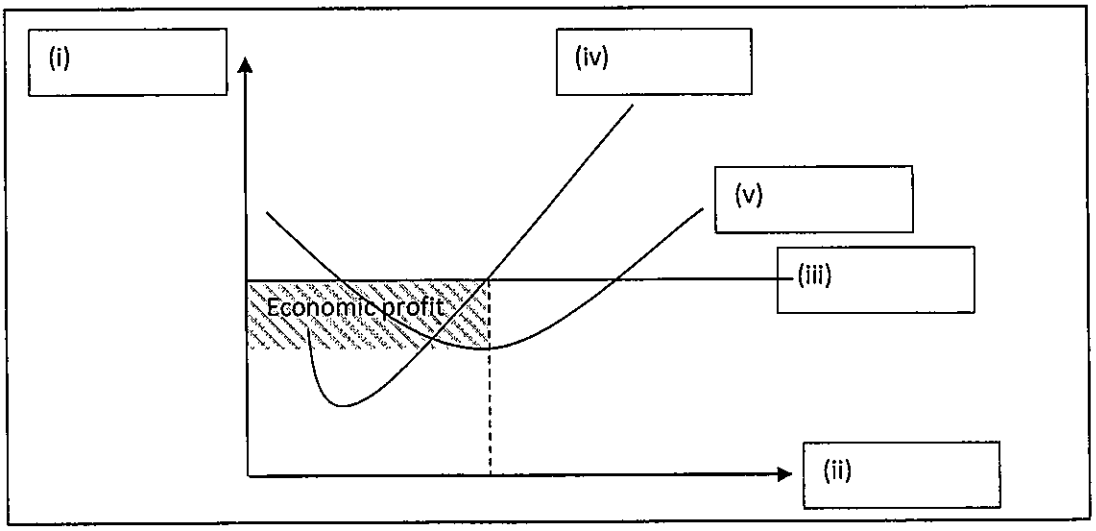
(a) Calculate the market price per unit of the good. (2 marks)

(b) Calculate the profit/loss, marginal revenue and marginal cost at each output level. (*You may copy table 4 into the answer booklet and write your answer).* (9 marks)

(c) Determine the profit maximising level of output using the marginal method. (2 marks)

(d) Explain what is the type of market structure for the firm based on the marginal revenue in (b). (2 marks)

(e) Label the graph below to show the economic profit of the firm. (5 marks)



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QUESTION 2

Point	Production chocolate bars	Production of candy
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

The above table shows production points on Willy Wonka Factory's production possibilities frontier. Answer the following questions.

(a) What is the opportunity cost of **ONE** chocolate bar moving from point C to point D? Show your calculation. (3 marks)

(b) What is the opportunity cost of **ONE** of candy moving from point C to point B? Show your calculation. (3 marks)

(c) Draw a PPF diagram to show what will happen to the production of chocolate bars and candy if Willy Wonka Factory hires 100 new employees to increase both production. Explain your diagram. (6 marks)

(d) Explain **THREE (3)** ways for Willy Wonka Factory to increase its production. (6 marks)

(e) If Willy Wonka Factory is the monopoly firm to supply chocolate bars and candy, list **TWO (2)** advantages the firm will benefit. (2 marks)

[TOTAL 40 MARKS]

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